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**BILTMORE
ANNUAL
REPORT
1979**

BILTMORE INDUSTRIES
GUELPH CANADA
Limited

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BILTMORE INDUSTRIES
GUELPH CANADA
Limited

AR32

*Six Months Report
June 30, 1980*

BILTMORE INDUSTRIES LIMITED

CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

SIX MONTHS ENDED JUNE 30, 1980
(with comparative figures for 1979)

	1980	1979
Sales	\$7,947,024	\$7,490,191
Cost of sales	6,004,452	5,443,757
Selling, general and administrative expenses	2,137,097	1,864,976
Income (loss) before taxes	8,141,549	7,308,733
Income taxes	(194,525)	181,458
Net income (loss) for period	78,500	(72,300)
Earnings (loss) per Common share based on the average number of Common shares outstanding during period after provision for convertible preferred shares	\$(0.45)	\$0.30
Fully diluted earnings (loss) per share	\$(0.26)	\$0.24

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION (UNAUDITED)

SIX MONTHS ENDED JUNE 30, 1980
(with comparative figures for 1979)

	1980	1979
Funds were provided by:		
Operations		
Net Income for period	(\$116,025)	\$109,158
Add: Depreciation and amortization not involving an outlay of funds	153,750	55,239
	37,725	164,397
Funds were used for:		
Additions to fixed assets	54,156	67,872
Reduction in long term debt	0	2,700
Dividends	58,000	58,000
	152,156	128,572
	(114,431)	35,825
Increase (Decrease) in working capital	2,403,468	2,107,543
Working capital at beginning of period	\$2,289,037	\$2,143,368
Working capital at end of period		

Dear Shareholder:

On behalf of the Board of Directors, I submit the financial results for the six months ending June 30, 1980. Sales are 6.1% ahead of last year at \$7,947,024. Losses incurred during the period are \$116,025 as opposed to a profit of \$109,158 last year.

The losses incurred are largely attributable to the performance of our automotive division. At the end of the 1979 model year, that is, July 1, 1979, our profitable leather covered instrument panel and console programs were substantially reduced because of styling changes by our customer. Recognizing this as a probability, we diversified into leather covered steering wheels during Model Year 1979. After our initial successes in this business, we established a significant manufacturing facility on the basis of contracts achieved for the 1980 Model Year. Unfortunately the actual volumes came in at levels dramatically below what we had been promised because of marketing problems of our major customer. Consequently the costs of establishing and operating this facility were spread over very small volumes and substantial losses were incurred. For the 1981 Model Year we have been successful in diversifying our customer base and initial volumes are achieving the levels for which the plant was originally set up. We are hopeful that these increased volumes will continue throughout the whole Model Year.

Our men's belt and police leather goods business continues to be quite strong.

Partially offsetting our automotive performance is the volume and profit achieved by the hat business which is substantially ahead of last year. More important at this time of year, our order position is very strong and we look forward to a good second half when we plan to ship approximately 2/3 of the year's volume. The better performance in this division is entirely the result of western hat sales in both Canada and the United States.

Our tie business has improved over last year in both sales and margins. We also look for a better year from this company.

The Board has declared a dividend of 6c per share on both Convertible Preferred and Common shares payable October 15, 1980 to shareholders of record September 30, 1980.

Yours truly

M. McMillan
President

seven year financial summary

	<u>1979</u>	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>
Income							
Sales	\$17,481,834	\$14,814,188	\$10,895,305	\$8,807,211	\$7,793,668	\$6,853,181	\$6,058,752
Net income for year	550,618	545,038	353,703	280,078	234,926	236,634	220,527
Earnings per share							
Undiluted	\$1.74	\$1.73	\$1.08	83c	67c	68c	63c
Fully diluted	\$1.23	\$1.22	79c	63c	51c	52c	48c
Financial Position							
Working Capital	2,403,468	2,107,543	1,533,638	1,385,389	1,203,730	1,059,667	894,065
Fixed Assets—net	504,400	360,545	462,430	347,655	342,479	344,694	361,886
Other Assets	476,950	476,950	481,267	430,797	380,322	342,815	311,160
Long-Term Debt	—	2,700	5,400	8,100	10,800	13,500	16,700
Deferred income taxes	16,200	12,800	28,700	13,300	400	—	—
	16,200	15,500	34,100	21,400	11,200	13,500	16,700
Shareholders' Equity	\$3,368,618	\$2,929,538	\$2,443,235	\$2,142,441	\$1,915,331	\$1,733,676	\$1,550,411

the president's report

Dear Shareholder:

On behalf of the Board of Directors I am pleased to present the financial results for 1979. Sales were ahead of last year by 18.0% at \$17,481,834. Earnings of \$1.23 per share on a fully diluted basis showed a marginal increase over last year. Return on tangible net worth is 20.7% and working capital has increased to \$5.39 per share.

Headwear earnings were sacrificed last year to help achieve the objective of expanding our western hat business particularly in the United States. This major effort is now starting to bear fruit and we are looking forward to a good year in headwear.

Watson Bros. Ltd., our neckwear, handkerchief, and scarf manufacturing subsidiary, increased sales substantially last year. However, earnings were down because of narrower margins, high interest, and reorganization costs. New marketing policies have been implemented with the objective of improving profitability.

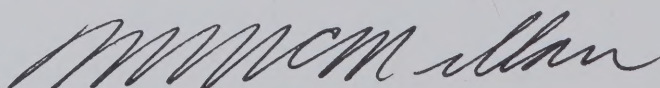
Custom Leather Products Ltd., had a record year in terms of both sales and earnings. Results of the consumer division were particularly encouraging. Last year saw the scaling down of our automotive trim business because of styling changes by the auto makers with the outlook for further reductions in 1980. Last year we successfully set up a new leather covered steering wheel factory which contributed positively to our earnings. This contribution would have been even greater had the auto manufacturers not suffered their recent sales decline. We expect our steering wheel operation to act as a major base for our automotive business in the future.

Inventories are substantially above last year reflecting irregular deliveries from suppliers in some cases, greater investment in anticipation of increased sales volume such as fur felt headwear, and a slowdown in certain of our customers' purchases such as steering wheels. The inventories are valued conservatively and will enable us to serve our customers well in the future.

A dividend of 7c per share has been declared payable on both Convertible Preferred and Common Shares payable in April 15, 1980 to shareholders of record as of March 28, 1980.

On behalf of the Board, I thank our employees and customers throughout North America for their great co-operation and support.

Yours truly,

A handwritten signature in dark ink, appearing to read "Michael McMillan". The signature is fluid and cursive, with the first name "Michael" written in a larger, more prominent script than the last name "McMillan".

Michael McMillan,
President.

BILTMORE INDUSTRIES LIMITED

consolidated statement of income

	Year Ended December 31	
	1979	1978
Sales	<u>\$17,481,834</u>	<u>\$14,814,188</u>
Cost of sales	12,610,397	10,774,594
Selling, general and administrative expenses	<u>3,951,419</u>	<u>3,128,456</u>
	<u>16,561,816</u>	<u>13,903,050</u>
Income before taxes	920,018	911,138
Income taxes:		
Current	366,000	382,000
Deferred	<u>3,400</u>	<u>(15,900)</u>
	<u>369,400</u>	<u>366,100</u>
Net Income	<u><u>\$550,618</u></u>	<u><u>\$545,038</u></u>
Earnings per common share based on the weighted average number of shares outstanding during the year:	\$1.74	\$1.73
Fully diluted earnings per share (Note 1)	\$1.23	\$1.22

consolidated statement of retained earnings

Balance at beginning of year	\$2,694,075	\$2,207,772
Net income	<u>550,618</u>	<u>545,038</u>
	3,244,693	2,752,810
Dividends:		
Preferred shares	37,944	38,201
Common shares	<u>73,594</u>	<u>20,534</u>
	<u>111,538</u>	<u>58,735</u>
Balance at end of year	<u><u>\$3,133,155</u></u>	<u><u>\$2,694,075</u></u>

BILTMORE INDUSTRIES LIMITED

consolidated balance sheet

Assets

	December 31	
	1979	1978
Current:		
Cash	\$ 34,942	\$ 113,686
Accounts receivable	2,865,273	2,427,995
Inventories (Note 2)	4,999,940	3,373,761
Prepaid expenses	<u>3,798</u>	<u>1,000</u>
	7,903,953	5,916,442
Fixed assets, at cost (Note 3)	2,200,705	1,984,700
Less - Accumulated depreciation	<u>1,696,305</u>	<u>1,624,155</u>
	504,400	360,545
Excess of cost of shares in subsidiaries over net book value of assets acquired (Note 1)	<u>476,950</u>	<u>476,950</u>
	<u><u>\$8,885,303</u></u>	<u><u>\$6,753,937</u></u>

Approved by the Board:

D. Michael McMillan, Director

George H. Montague, Director

Liabilities

	December 31	
	1979	1978
Current:		
Bank advances (Note 4)	\$4,148,443	\$2,493,732
Accounts payable and accrued liabilities	1,309,943	1,098,455
Income taxes payable	12,630	204,844
Dividends payable	26,769	9,168
Current portion of long-term debt	<u>2,700</u>	<u>2,700</u>
	5,500,485	3,808,899
Long-term debt payable to April 30, 1980	—	2,700
Deferred income taxes	<u>16,200</u>	<u>12,800</u>
	5,516,685	3,824,399
Shareholders' Equity		
Capital stock (Note 5)	235,463	235,463
Retained earnings	<u>3,133,155</u>	<u>2,694,075</u>
	<u>3,368,618</u>	<u>2,929,538</u>
	<u>\$8,885,303</u>	<u>\$6,753,937</u>

BILTMORE INDUSTRIES LIMITED

consolidated statement of changes in financial position

	Year Ended December 31	
	1979	1978
Financial resources were provided by:		
Operations -		
Net income	\$ 550,618	\$ 545,038
Add charges which do not affect current funds—		
Depreciation and amortization	168,133	206,128
Deferred income taxes	<u>3,400</u>	<u>(15,900)</u>
	722,151	735,266
Redemption of life insurance	—	4,317
Sale of fixed assets	<u>—</u>	<u>7,985</u>
	722,151	747,568
Financial resources were used for:		
Purchase of fixed assets	311,988	112,228
Reduction of long-term debt	2,700	2,700
Dividends	<u>111,538</u>	<u>58,735</u>
	426,226	173,663
Increase in working capital	295,925	573,905
Working capital at beginning of year	<u>2,107,543</u>	<u>1,533,638</u>
Working capital at end of year	<u>\$2,403,468</u>	<u>\$2,107,543</u>

notes to consolidated financial statements

DECEMBER 31, 1979

1. SUMMARY OF ACCOUNTING POLICIES**Principles of Consolidation**

The consolidated statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

Inventories

Inventories are stated at the lower of cost and net realizable value (cost being determined on a first-in first-out basis).

Fixed Assets and Depreciation

Fixed assets are carried at cost. Depreciation is calculated on a diminishing balance basis at annual rates of 5 percent on buildings, 20 percent on machinery and equipment and 30 percent on automobiles and trucks. Leasehold improvements are amortized over the life of the lease plus one renewal option term if applicable. Fixed assets and leasehold improvements used in the automotive division of a subsidiary company are depreciated and amortized over the life of the related automotive contracts, an average of one and a half years.

Deferred Income Taxes and Income Taxes payable

Deferred income taxes are provided for expense items reported for tax purposes in different periods than for financial reporting purposes, thus creating a timing difference, the tax effect of which is reflected under this heading. Provision is made for all income taxes currently payable.

Excess of Cost of Shares in Subsidiaries Over Net Book Value of Assets Acquired

The excess of purchase price of investments in subsidiary companies over the net value of the underlying tangible assets acquired is retained as an asset in the consolidated balance sheet and is not being amortized.

Earnings per Share

Earnings per common share calculations are based on the weighted average number of shares of common stock outstanding during the respective years, after net earnings are reduced for convertible preferred dividend requirements. Fully diluted earnings per share calculations assume the conversion of convertible preferred shares.

2. INVENTORIES

	December 31	
	1979	1978
Raw materials and supplies	\$1,924,450	\$1,617,363
Work-in-process	873,907	797,688
Finished goods	2,201,583	958,710
	<u>\$4,999,940</u>	<u>\$3,373,761</u>

3. FIXED ASSETS

	December 31, 1979		December 31, 1978	
	Cost	Accumulated Depreciation and Amortization	Net	Net
Land	\$ 1,850	\$ —	\$ 1,850	\$ 1,850
Buildings	430,167	265,241	164,926	173,606
Machinery and equipment—				
Consumer divisions	1,401,509	1,144,223	257,286	159,253
Automotive division	232,964	183,323	49,641	18,462
Leasehold improvements—				
Consumer divisions	53,425	40,023	13,402	3,926
Automotive division	80,790	63,495	17,295	3,448
	<u>\$2,200,705</u>	<u>\$1,696,305</u>	<u>504,400</u>	<u>\$360,545</u>

4. BANK LOANS AND ADVANCES

The Company has pledged accounts receivable and inventories with a carrying value of \$7,865,213 as security for bank advances of \$4,148,443.

5. CAPITAL STOCK**a) Authorized**

158,000 convertible preferred shares without par value, entitled to cumulative dividend of 25c per share per annum, each convertible into common shares on a share for share basis.
2,000,000 common shares without par value.

b) Issued -

	1979	1978
151,105 convertible preferred shares (152,805 in 1978)	\$ 32,289	\$ 32,653
295,045 common shares (293,345 in 1978)	203,174	202,810
	<u>\$235,463</u>	<u>\$235,463</u>

notes to consolidated financial statements

continued

- c) Common shares reserved
for the conversion of convertible
preferred shares

151,105

6. REMUNERATION OF DIRECTORS AND OFFICERS

During the year ended December, 1979 the aggregate amount paid or payable by the Company and its subsidiaries to seven directors in their capacity as directors was \$2,100 (\$1,500 in 1978) and to five officers was \$203,277 (\$211,044 in 1978). Two of the directors are also officers of the Company.

7. OTHER INFORMATION

	1979	1978
Depreciation and amortization:		
Included in cost of sales	\$149,023	\$190,071
Included in selling, general and administrative expenses	19,110	16,057
	<u>\$168,133</u>	<u>\$206,128</u>
Interest:		
On current debt	<u>\$447,539</u>	<u>\$240,954</u>

auditors' report To the Shareholders of Biltmore Industries Limited:

We have examined the consolidated balance sheet of Biltmore Industries Limited as at December 31, 1979 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Kitchener, Ontario
February 29, 1980

Chartered Accountants

BILTMORE INDUSTRIES LIMITED

corporate directory

HEAD OFFICE, GUELPH, ONTARIO

Board of Directors

WILLIAM A. DETENBECK, Port Credit, Ontario
JAMES W. McCUTCHEON, Toronto, Ontario
* D. MICHAEL McMILLAN, Guelph, Ontario
NORMAN McMILLAN, Guelph, Ontario
* GEORGE H. MONTAGUE, Toronto, Ontario
* JAMES R. MULLINS, Puslinch, Ontario
DAVID B. WELDON, London, Ontario

* Member of the Audit Committee

Officers

NORMAN McMILLAN, Chairman of the Board
D. MICHAEL McMILLAN, President
NORMAN B. IRWIN, C.A., Secretary-Treasurer

Subsidiary Companies

CUSTOM LEATHER PRODUCTS LIMITED, Kitchener, Ontario
WATSON BROTHERS LIMITED, Toronto, Ontario
BILTMORE HATS (WESTERN) LIMITED, Guelph, Ontario
(non-operating)

Auditors

PRICE WATERHOUSE & CO., Kitchener, Ontario

Registrar and Transfer Agents

GUARANTY TRUST COMPANY OF CANADA, Toronto, Ontario

Bankers

CANADIAN IMPERIAL BANK OF COMMERCE

Stock Listing

TORONTO STOCK EXCHANGE, Toronto, Ontario

